

This record is a partial extract of the original cable. The full text of the original cable is not available.

060240Z Sep 05

UNCLAS SECTION 01 OF 03 TAIPEI 003667

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Economic Briefing for August 2005

[1](#)1. This cable summarizes selected recent economic events in Taiwan in August 2005:

- Poor economic performance 1H, mixed expectations 2H
- The CBC's ensures BOP surplus in Q2
- Chunghwa Telecom privatized amid opposition
- Taiwan attempts to cut budget deficit
- GE first foreign company to acquire/operate local bank.
- Transportation ban hurting Taiwan air/sea firms
- Taiwan reinforces Strait Exchange Foundation
- First shipment of duty-free Taiwan fruits in China.

Mixed Expectations for Taiwan's Economy

[1](#)2. The island's economy performed poorly in the first seven months this year; economists hold mixed expectations for the rest of the year. Manufacturing production leveled off in the first half and posted a y-o-y decline of 1.3% in July. Unemployment rose to a 10-month high of 4.3%. Export growth in July 2005 declined to 5% from 26% a year ago, and import growth dropped from 33% to 10%. Higher oil prices contributed to a plunge of 62.5% in Taiwan's July 2005 trade surplus to US\$330 million, inflation rose to 2.37%, the second highest rate in the past nine months, and the NT dollar fell by 11% against the US dollar during March - August. Taiwan authorities hope the weak currency will stimulate exports, increase industrial production, and boost economic growth above 4% in the second half of this year. However, private observers note that higher oil prices are dampening world demand and will continue to combine with industrial relocation to slow Taiwan's export sector. Economists estimate that every ten-percent rise in petroleum prices will reduce Taiwan's economic growth by 0.14 percentage points.

Short-term Liability Sustained BOP Surplus in Q2 2005

[1](#)3. Taiwan's balance of payments (BOP) in Q2 of 2005 posted a surplus of US\$6.45 billion, pushing foreign exchange (FX) reserves to US\$253.62 billion. The BOP would have run a deficit if Taiwan's Central Bank of China (CBC) had not increased its short-term liabilities through repurchase agreements using its stock of U.S. bonds. The island's current account (C/A) recorded a negligible surplus in Q2, a five-year low.

Privatization of Chunghwa Telecom Corporation (CTC)

[1](#)4. In spite of objections from labor unions and opposition party legislators, the Ministry of Transportation and Communications (MOTC) successfully privatized CTC in August [1](#)2005. Government ownership in CTC was reduced from 65% to 44%. Three percent of CTC shares were sold to local individuals through auction on August 9, and 13.9% to foreign investors through issuance of American depository receipts (ADRs) on August 10. The MOTC sold another four percent of CTC shares to CTC employees on August 29. The ADR was priced at a 3.01% discount from the level of US\$19.57 prevailing at that time, and the purchase requests were about six times the volume available for sales.

Taiwan Attempts to Cut Budget Deficit by One-third

15. In late August, Taiwan's Executive Yuan submitted its 2006 central budget proposal to the Legislative Yuan for consideration. Through planned privatizations in 2006, the government projects an almost one-third cut in its budget deficit. It hopes within five-year program to produce a balanced budget. Taxes remain the main source of revenue. Science and technology funding will grow 22%. Part of the funding of the 15-year special defense budget (blocked by the opposition parties for the past two years) is incorporated in the 2006 regular budget proposal. The 2006 budget proposal also includes funding for the 2009 World Games in Kaohsiung, southern Taiwan. According to the budget proposal, the deficit and the debt service payments of NT\$65 billion in 2006 will produce a fiscal deficit of NT\$260.7 billion (US\$8.1 billion), sending the government's total outstanding debt to NT\$3,920 billion (US\$122.5 billion) or 37% of GNP, still below the statutory 40% limit.

GE Capital to Acquire Local Bank

16. In Mid-July 2005, the Fair Trade Commission permitted GE Capital, a subsidiary of General Electric, to acquire 33-49% equity in Cosmos Bank. A month earlier, the Cosmos Bank shareholders conference approved a plan to issue 729 million new shares (equivalent to 29% of total equity) through private placement to facilitate GE Capital's acquisition of a majority of equity. The case is still pending for approval of the Financial Supervisory Commission. GE Capital will become the first foreign company to directly operate a local bank in Taiwan.

Ban Hurting Taiwan's Air/Sea Transportation Firms

17. A ban on direct cross-Strait transportation is hurting and marginalizing Taiwan's transportation enterprises. China has been gradually building its links with the world over recent years, and foreign airlines and shipping companies are bypassing Taiwan to deal with China directly. FedEx, UPS, and DHL, the top-three express delivery companies in the world, are building transshipment hubs in China and cutting flights to Taiwan. Monthly cargoes loaded and unloaded at CKS Airport, have dropped 30% from 12,000 tons five years ago to 8,000-9,000 tons estimated for this year. The world ranking of Kaohsiung Harbor has also fallen from third to sixth, and the harbor has cut the number of stevedores from 10,000 to 3,700.

Efforts to Reinforce SEF Functions

18. Taiwan's government is trying to strengthen the Strait Exchange Foundation (SEF). Former DPP Secretary General Chang Chun-hsiung has been appointed SEF Chairman, and Mainland Affairs Council Vice Chairman Michael You as SEF Secretary General. Both Chang and You have close contact

SIPDIS

with President Chen Shui-bian. On August 30, the SEF set up the Taiwan Investors Service Center in Taipei to help Taiwan businesses in China. In addition, President Chen and Premier Frank Hsieh promise to grant SEF an annual subsidy of NT\$100 million beginning 2006. Currently, the SEF's annual funding requirement of NT\$200 million comes from the SEF's own resources. The PRC has downplayed the SEF's role in cross-Strait consultations by utilizing Taiwan's industrial associations.

Xiamen Sees First Shipment of Duty-free Fruits from Taiwan

19. On August 25, the first shipment of duty-free fruits from Taiwan's Kaohsiung Harbor arrived in Xiamen, a port across the Strait from Taiwan, for transfer to other mainland cities. After passing a quarantine process, the fruits weighing 6.37 metric tons were immediately sent to Zhongpu Fruit Wholesale Market of Xiamen from where sales agents transshipped them to retail shops in Hangzhou, Shanghai, and Beijing. Xiamen Chengxingtai Import and Export Company, the importer of the shipment, plans to import eight shipments of Taiwan fruits (of 40 metric tons) through Xiamen every month, beginning September. The PRC has scrapped import tariffs on 15 categories of Taiwan fruits, including pineapples, chirimoyas, pawpaws, carambolas, mangos, guavas, wax-apples, pinangs, grapefruits, jujubes, coconuts, loquats, plums, peaches, and persimmons.

KEEGAN